# Q2 GDP growth seen around 6.5%

## Strong pent-up demand, higher capex spending aided growth

SURABHI
New Delhi, November 25

**THE PACE OF** economic growth is seen to have moderated in the July-September 2022 quarter as the base effect wore off but there continued to be strong pent-up domestic demand and higher capital spending by the government.

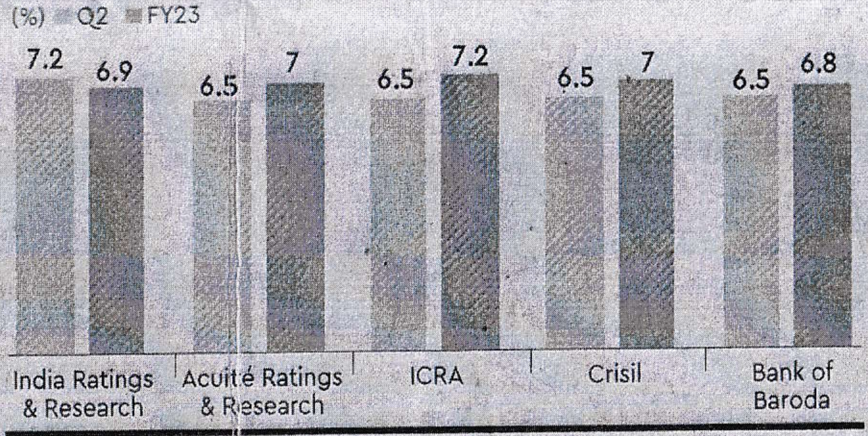
Most analysts have pegged GDP growth at about 6.5% for the second quarter of the fiscal even as they have scaled down their forecast for the financial year 2022-23 to about 7%.

Official data on national income for the September quarter will be released on November 30.

"We expect GDP growth at 6.5% in the second quarter of the fiscal. This will be significantly lower compared to the first quarter which was primarily driven by the favourable base effect," said Suman Chowdhury, chief analytical officer at Acuité Ratings & Research Ltd.

The key factor behind the economic momentum right now is a visible recovery in domestic demand, especially urban demand, he said. Aided by a favourable base and some sequential momentum in services and utilities, India's gross domestic product (GDP) grew by 13.5% in Q1FY23. However, in the second half of the year, the growth momentum is expected to weaken further, as the pent-up consumption demand loses vigour.

**GROWTH FORECASTS**




While capacity utilisation had reached the crucial threshold of 75% in Q1, Corporate India hasn't yet chosen to drop its guard, and the dip in export demand could only make the companies warier. The Reserve Bank of India (RBI) has recently forecast GDP growth between 6.1-6.3% in the second quarter. "If this is realised, India is on course for a growth rate of about 7% in 2022-23," the central bank said in its bulletin for November. It had in its monetary policy statement estimated GDP growth of 6.3% in Q2, 4.6% in Q3 and Q4 each, with 7% growth in 2022-23. While the domestic macroeconomic outlook is resilient, it is sensitive to formidable global headwinds, the RBI said, adding that the urban demand appears robust and rural demand has recently picking up traction.

**In the second half of the year, the growth momentum is expected to weaken further**

Chowdhury too noted that the rural economy is still not completely out of the woods and exports have also slowed down as has fund raising due to the challenging global environment. "These headwinds could restrain growth," he said. The rating agency has retained its GDP growth forecast at 7% for fiscal 2022-23 but believes that the second quarter GDP data will be a pointer of how growth will pan out over the fiscal.

ICRA has projected the year-on-year growth of the GDP and gross value added in the second quarter of the fiscal at 6.5% and 6.3%, respectively due to the base effect.

"Economic activity in the second quarter of 2022-23 benefitted from robust demand for contact-intensive services, healthy capital spending by the government and pre-festive season stocking of goods. The downsides arose from the mixed crop output trends revealed by the advance estimates of kharif production, adverse input cost movements for certain sectors with a higher fuel intensity, as well as the impact of the flagging external demand on non-oil merchandise exports," said Aditi Nayar, chief economist, ICRA.

The economy grew at 8.4% in the second quarter of 2021-22.

According to Bank of Baroda, GDP is expected to moderate by 6.5% in the second quarter of the fiscal led by across-the-board moderation in sectors owing to base effect.

Agriculture growth will be higher by 3% against 4.5% in the first quarter while manufacturing will grow at a much slower pace by 2.8% (4.8% in the first quarter), it said in a report.

Electricity is expected to clock a growth of 5% in the second quarter. For services, revival in pent-up demand is expected to boost the hospitality sector, resulting in much higher growth in trade, hotel transport and communication sector, it said. It expects the economy to grow by 6.8% in the current fiscal compared with a growth of 8.7% last fiscal. India Ratings and Research however, expects second quarter GDP growth at 7.2% and believes that some part of the base effect will still be in play.